

# Summary of public consultation feedback on the Baltic imbalance settlement harmonisation document

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AS "Augstsprieguma tīkls"  
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## 1. Introduction and overall viewpoints

The Baltic transmission system operators Elering AS, AS “Augstsprieguma tīkls” and LITGRID AB announced the public consultation on the Baltic imbalance settlement harmonisation document which lasted from June 27<sup>th</sup> until August 15<sup>th</sup> 2016. The objective of the consultation was to gather feedback from interested stakeholders about the preliminary view on the Baltic harmonised imbalance settlement model proposed by the Baltic TSOs.

The public consultation on the Baltic imbalance settlement harmonisation attracted 15 responses. The respondents were: Eesti Energia AS (Estonia); Enefit SIA (Latvia); Enefit UAB (Lithuania); Fortum Power and Heat Oy (on behalf of 3 Baltic countries); Baltic Energy Services SIA (Latvia); Baltic Energy Services OÜ (Estonia); Baltic Energy Services UAB (Lithuania); AS Latvenergo (Latvia); Nordic Power Management OÜ (Estonia); Alexela Energia AS (Estonia); Energijos Tiekimas UAB (Lithuania); Imlitex UAB (Lithuania). In survey participated also Lithuanian distribution system operator Energijos Skirstymo Operatorius AB, the Ministry of Economic Affairs and Communications of Estonia and National Commission for Energy Control and Prices of Lithuania.

The following table includes a high-level overview of the Baltic TSOs proposals with regard to the main building blocks of the Baltic imbalance settlement harmonisation and their validity based on stakeholders feedback.

*Table 1 - Building blocks for imbalance settlement harmonisation*

<i>Building block</i>	<i>TSOs preliminary proposal</i>	<i>Stakeholders feedback</i>
<i>Balance responsibility</i>	<i>Full</i>	✓
<i>Cost coverage/base</i>	<i>Neutrality costs between balance service and grid service. Full cost of balancing.</i>	✓
<i>Main imbalance price determination</i>	<i>Marginal</i>	✓/✗
<i>Imbalance settlement period</i>	<i>60 minutes</i>	✓
<i>Settlement model</i>	<i>Single portfolio model</i>	✓/✗
<i>Pricing model for ACE</i>	<i>Excluded</i>	✓/✗
<i>Pricing model for imbalance</i>	<i>Single reference pricing</i>	✓/✗
<i>Balancing cost recovery model</i>	<i>Hybrid</i>	✓/✗

The feedback derived from the stakeholders presents several key conclusions:

- a. There was unanimous consent on the balance responsibility requirement, cost coverage/base principles, and with the duration of the imbalance settlement period.

- b. The majority of respondents agreed with the proposed settlement model with the exception of two stakeholders suggesting to rethink the selection of the single portfolio model and opt for the dual portfolio model instead.
- c. The TSOs received negative feedback related to the proposed pricing model for ACE as a lot of respondents objected the idea of the ACE excluded model and therefore also dismissed the idea of the hybrid model proposed as the balancing cost recovery model. There were however some stakeholders who accepted the aforementioned TSOs suggestions, one of whom also called for an enhancement of the consumption component share from the original 30 percent submitted by the TSOs.
- d. Stakeholders also proposed additional items that should be harmonised concurrently with the main building blocks such as the monthly settlement correction period, guarantees, data exchange formats etc.

Based on these findings, the Baltic TSOs have agreed to re-analyse and develop conclusive models by the end of 2016 in the following building blocks:

- Pricing model for ACE since most respondents did not accept the application of consumption based socialised component resulting from the implementation of the proposed ACE excluded model;
- Pricing model for imbalance – single reference price principle agreed, but final imbalance price methodology shall be re-analysed; and
- Balancing cost recovery model since the prevalent view of stakeholders was that the socialised component should be eliminated.

It should also be stated that the consultation documents sent to the stakeholders were based on the GL EB version made public in that time. During the consultation process, a new version of the GL EB draft titled “Service-level draft for the purposes of an initial discussion with Member States on 23 June 2016” had been developed and published<sup>1</sup>, which includes some new items about settlement principles, incl. the statement that price components included in the imbalance price shall be harmonised by all TSOs.

The Baltic TSOs affirm that the final target model shall be in line with the Nordic solution and also with the EU methodology. As the Nordic TSOs plan to start re-analysing and examining their current balance model and settlement concepts by summer 2017, the Baltic TSOs will refrain from implementing the socialised component in the settlement model.

Baltic TSOs have set the target to work out the final imbalance settlement model to be harmonised between the Baltics by the end of 2016 and provided for the Stakeholders. Each TSO should develop the standard terms and conditions for BRPs including the imbalance pricing principles approved by their national regulatory authority and shall publish the documents by the 4<sup>th</sup> quarter of 2017.

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<sup>1</sup> It should be noted that at the time of compiling this document the underlying GL EB has only been made available to ENTSO-E members.

## 2. Responses to the public consultation

The following section contains all the responses submitted by the stakeholders in their original form and manner. The Baltic TSOs have added their comments/explanations where relevant.

<b>Question 1.1 – Do you agree that the proposed settlement design is in line with the principles of the GL EB draft and the integration of balancing markets?</b>	
<b>Answer</b>	<b>TSOs comment</b>
<p>We agree that the proposed Baltic common imbalance settlement principles are in line with the following GL EB draft requirements but proposed hybrid model for imbalance settlement is not in line with those principles. Proposed model will:</p> <ul style="list-style-type: none"> <li>• Decrease imbalance market transparency so that imbalance price is not reflecting the real price</li> <li>• Does not improve competition and does not attract any new participant to enter the markets</li> <li>• Will divide balancing costs among market players inadequately so that more stable portfolio will cover additional costs caused by other portfolios</li> <li>• Local consumers will have to compensate also balancing costs related to export</li> </ul> <p>Current Estonian and Latvian imbalance systems are more or less harmonized and they do not preclude establishing common Baltic regulation power market. Lithuanian imbalance system is the main obstacle.</p>	<p>Although TSOs are allowed to develop additional settlement mechanisms to charge BRPs, the TSOs acknowledge the implications related to the hybrid model, and shall therefore introduce a new methodology for the balancing cost recovery model and pricing of ACE, in which the socialized component is removed, and which should therefore be more in accordance with the principle that the costs associated to imbalances are distributed to the BRPs according to their imbalances volumes.</p>
<p>There is a shortcoming that a fixed consumption fee does not incentivise BRPs to strive to be as much in balance as possible, as part of the balancing cost is shared among everyone. This “punishes” BRPs who forecast more accurately and rewards those who do not. It also reduces the importance of skill involved in BRPs, which is their core business and makes the market less efficient. It would require more explanation why the 30%/70% split was decided and not 20%/80% or 0/100% for example. It currently seems arbitrarily in the interest of BRP’s who are less accurate in their forecasting.</p>	
<p>BRP supports swift harmonisation of common Baltic imbalance settlement as well as mFRR market and standardised product. Delays in making decisions on the appropriate models and their subsequent execution could cause additional losses to market participants. The general settlement principles presented by the Baltic TSOs are broadly acceptable. However, it is necessary to highlight the following considerations:</p> <ul style="list-style-type: none"> <li>• Reduction of ACE costs and the establishment of a Baltic common transparent cost-based and market-based pricing methodology have to be the primary aim and focus of harmonisation;</li> <li>• The pre-condition to a harmonised price methodology for ACE is a Baltic-wide liquid, well-established and transparent regional regulating market that is centrally managed and efficiently linked with Finnish and Swedish markets. This would provide certainty for market participants that the ACE excluded pricing model could be an effective solution, which would remain liquid and avoid excessive ACE costs;</li> <li>• Marginal pricing - taking into account the specificities of the Baltic region, marginal pricing as basis for determining imbalance price could lead to a more efficient and transparent market only if regulation market liquidity is ensured;</li> <li>• Accumulation and pooling of additional high balancing costs should be avoided;</li> <li>• BRP strongly disagrees with socialised fees and -components;</li> <li>• The principle of avoiding extra costs to market participants should be maintained. Ability of market participants to pass on volume-based fees to the next market in higher prices cannot be assumed per se;</li> </ul> <p>The TSOs should commonly seek for possibilities to negotiate agreement with ACE third party to achieve more beneficial and transparent pricing that would allow reducing ACE costs, calculating targeted fee more precisely and giving certainty about balancing cost. Ideally, fees or any other payments to ACE party associated with Baltic network frequency regulation should be allocated to grid tariff.</p>	
<p>Yes. The proposed settlement design is aligned to principles of GL EB draft and integration of balancing markets.</p>	
<p>Yes.</p>	
<p>Yes.</p>	
<p>As long-term consolidation of Baltic and Nordic models is the goal, Nordic market set-up should be</p>	<p>The Nordic TSOs are planning to</p>

**Question 1.1 – Do you agree that the proposed settlement design is in line with the principles of the GL EB draft and the integration of balancing markets?**

taken very seriously into consideration while crafting Baltic market model. We should end up with very similar model to Nordic so that the further integration process would not be hindered. We urge TSOs to rethink the selection of single-single model and choose Nordic model for these main reasons:

- Proposed model is not in line with Nordic model, and any further transition from single-single to Nordic model would be much more complicated than vice versa.
- Single-single model incentivises start of guessing game where BRP would take actions to adjust their portfolio, trying to guess what other BRP would do, that could lead to significant imbalances in the system.
- Adopting Nordic model would maximise trade opportunities with the Nordics.

Combination of Marginal pricing with ACE exclusion option should be reviewed as well. Such combination could create ground for manipulation where insignificant local bids can determine price of imbalance for significant volumes (see detailed elaboration in 1.4).

also review their current balance settlement concepts, which shall entail principles related to balancing and imbalance pricing, and also the portfolio model. The Nordic TSOs and Baltic TSOs have verified a set of requirements for the integration of Baltic Nordic balancing markets. Accordingly, the Baltic Nordic balancing markets integration does not require one imbalance model for the entire Baltic and Nordic area.

Single pricing is the preferred model stated also in the GL EB, and should therefore be accompanied by the single portfolio model.

The proposal for the pricing model for ACE shall be changed, and shall be based on the principle that costs associated to imbalances are distributed to the BRPs according to their imbalance volumes, but the principle of marginal pricing shall stay intact.

The GL EB network code has now entered the Comitology process and will be voted on in late 2016. Currently, the question regarding the design is too abstract to answer. We suggest the Baltic TSO-s to make available a comparison (e.g. in the form of a table) between the latest GL EB draft (June 2016) and the proposed settlement principles. At minimum, the relevant articles of GL EB should be referenced.

The new document shall entail references to all the relevant articles of the newest version of the GL EB.

**Question 1.2 – Do you agree with the building block in chapter 3.1 for full balance responsibility requirement?**

Answer	TSOs comment
Agree.	
All market participants, including RES generators, should have balance responsibility. Each BRP shall be financially responsible for their imbalances to be settled with their connected TSO.	
BRP supports the full balance responsibility requirement - all market participants who cause imbalances on the Baltic market (thus causing ACE costs to TSOs) should be fully responsible. This corresponds as well to GL EB requirements.	
We agree that all market participants should have balancing responsibility to enable transparency and effective functioning of the market. Choice of balancing service provider for all producers and consumers should be free and non-discriminative without any additional conditions and restraints (also regarding subsidies and feed in tariffs).	
Yes.	
Yes, we agree.	
Yes. All market participants, including RES generators, should have balance responsibility.	
Yes. It is working in Nordics.	

<b>Question 1.3 – Do you agree with the building block in chapter 3.2 for cost coverage base included to imbalance service?</b>	
<b>Answer</b>	<b>TSOs comment</b>
Yes. In case balancing energy bids are activated for purposes other than balancing, the price of these activated balancing energy bids shall not determine the imbalance price and shall not set the price of balancing energy in marginal pricing principle. Total balancing costs shall be recovered through imbalance prices and application of residual costs (costs not covered by imbalance prices) recovery component. The settled principle is that TSOs are financially neutral with regard to imbalance settlement.	
Yes.	
Yes, we agree.	
Yes.	
We agree with cost coverage principles. There should be no cross-subsidising with grid fees.	
We agree that a common cost base for imbalance settlement needs to be established to reflect a common concept towards imbalance. Costs for balancing are paid for by the BRPs while any cost for grid operation should be paid through the grid tariff. This principle is relevant in Lithuania where grid tariffs are subsidized through balancing energy prices. We agree that TSOs are not allowed to gain profit from any balancing energy settlement processes. In addition we agree that TSOs shall not use the financial outcome as a result of imbalance settlement to cover the cost of congestion.	
BRP supports the full cost coverage and neutrality principle. Fees or any other payments to ACE party associated with Baltic network frequency regulation could be allocated to grid tariff.	
Agree.	
Actually we agree with the cost coverage base included to imbalance service. Just we would be appreciative if you could give us detailed calculation of cost coverage.	

<b>Question 1.4 – Do you agree with the building block in chapter 3.3 for marginal pricing principle?</b>	
<b>Answer</b>	<b>TSOs comment</b>
We agree with marginal pricing principle, but the pre-requisite for this is a transparent and effective IT solution for offering up and down regulation and there should be very transparent system. There should in place a control system that TSOs are always activating bids with the best price, which was available at the market. Also Finnish and Swedish area bids should be available at all times.	New Baltic TSO IT solution with activation optimisation function will be developed according to GL EB requirements.
Agree.	
We agree that main imbalance price determination should be based on marginal pricing. But this can be done only after open supply agreement with Baltics' Open Balance Provider is restructured. At present Baltics' open supply prices include costs for balancing service and costs for frequency service. Therefore it does not give right signals to the market. If forecasting accuracy will be improved, then balancing energy prices will increase. And vice versa. Separating frequency costs from balancing price enables to implement right balancing model, where balancing energy price really represents the actual balancing cost during relevant hour. Frequency costs can be considered as system service and should be part of grid service, instead of balancing energy service. Excluding ACE from marginal price calculation in the situation, where local regulation power is limited, leads to wrong market signals and is inconsistent with general settlement principle point a) establish adequate economic signals, which reflect the imbalance situation.	According to GL EB, the costs for aFRR shall remain in the balance service cost recovery. This means that balancing services cost recovery shall include costs for balancing service and costs for frequency service. Therefore the issue how to include the ACE cost to imbalance price will be re-analysed by Baltic TSOs.
Yes. The main imbalance price determination should be calculated on a marginal basis based on activated balancing energy, excluding ACE and excluding actions for non-balancing (e.g. countertrading, congestion management) purposes.	
Yes. Marginal price promotes efficient use of resources.	
BRP agrees with marginal pricing principles as this would lead to more efficient and transparent	

<b>Question 1.4 – Do you agree with the building block in chapter 3.3 for marginal pricing principle?</b>	
balancing market. However, taking into account the specifics of the Baltic region, marginal pricing as basis for determining imbalance price would lead to a more efficient and transparent market only if regulation market liquidity is ensured.	
<p>Few times a year during tense situation in the market, e.g. when NordBalt is out, main generators are maintained, transmission capacity is constrained, there is shortage of supply in Lithuania (and Latvia) during peak hours. Currently, there is a cap of 200 EUR/MWh set on regulating bids. This incentivises buyers to reduce purchases if price in Nord Pool exceeds this limit. On the other hand most capacities are already sold out on the market at such prices, so no (or very little) new supply would appear even if prices would reach 3000 EUR/MWh as there are no generators in Baltics whose marginal costs are above that limit.</p> <p>Litgrid presented that under marginal price in the above mentioned situation TSO would activate all available local regulation bids and then proceed to ACE offers. Let us assume that there would be one local bid of 1 MW for 8000 Eur. As system is short, this bid will be activated and then TSO reserves would be activated to balance the system and hereby set the imbalance price at 8000 EUR/MWh. This would mean that no BRP will be willing to reduce purchases at high prices in Nord Pool and could lead Nord Pool prices to reach system limits of 3 000 EUR/MWh. This is a significant risk that must be tackled with the implementation of TSOs' proposal. Even though marginal pricing is not a bad idea per se, however when combined with "ACE excluded" set up it might result in unrealistically high prices both on Nord Pool exchange as well as in balancing market. We see few possible solutions:</p> <ul style="list-style-type: none"> <li>• Price caps for regulation bids in Baltics</li> <li>• Balancing price to be determined by weighted average price of all means used to balance the system</li> <li>• Selectively allow ACE (regulation and reserves) to participate in balancing price formation, as proposed by POYRY.</li> </ul>	According to GL EB, the proposed pricing method for balancing shall be based on marginal pricing, and that the balancing prices shall not be capped or floored. The GL EB also states that "the imbalance price for shortage shall not be less than the weighted average price for activated positive balancing energy for frequency restoration reserves and replacement reserves", and conversely "the imbalance price for surplus shall not be greater than the weighted average price for activated negative balancing energy for frequency restoration reserves and replacement reserves".
Marginal pricing principle may be quite risky if in Lithuania (and possibly other Baltic States) will not be retained regulatory upward price ceiling / cap "(price not higher than EUR 200 / MWh). This allows critical hours to avoid not only extremely high imbalance prices, but also ensures that the NP Lithuania (and Latvia) price area does not form a higher price than EUR 200 / MWh. If the regulatory price restriction would disappear and would be subject to marginal pricing principles, during critical hours balancing price could be formed by the unusually high prices last (place) offer. At the same time, it would make for a responsible balancing of market participants to submit proposals to acquire the necessary needs and at a very high (any) prices in the market, so during critical periods there would be a risk that the high prices would be formed at power exchange and possibly or even maximum possible price at NP. Such risks can significantly increase the cost of the supplier, and at the same time supply services to end-users. On the other hand, by maintaining the regulatory upward price "ceiling" / "hat", the marginal price of the principles seem acceptable.	
We don't agree with this marginal pricing principle, because it's a little bit illogical: in case of mFRR up-regulation, all market participants receive the price of the most expensive offer that was accepted, and in case of mFRR down-regulation, market participants receive the price of the cheapest activated offer. In this case producers have all opportunities to raise the price very high or to cut the price very down. For example the price can be offered 1000 EUR and everybody should accept it according marginal pricing principle.	
The statement GL EB draft indicates is rather vague – it would be useful to add a reference to the relevant article there to enable cross-checking the presented facts. In addition, it is not clear, which GL EB draft is used.	The documents were drafted based on the latest version of the GL EB at the time of Baltic imbalance model development. Due to new developments in the latest GL EB (version 23.06.2016), the corresponding changes will be also made to the final public consultation materials so that they are in line with the latest GL EB / EU documentation.

<b>Question 1.5 – Do you agree with the building block in chapter 3.4 for imbalance settlement period?</b>	
<b>Answer</b>	<b>TSOs comment</b>
We agree. Changing the settlement period without available spot market for the same time interval would be pointless.	



<b>Question 1.5 – Do you agree with the building block in chapter 3.4 for imbalance settlement period?</b>	
Agree.	
The imbalance settlement period (hereinafter – “ISP”) should be 60 minutes as a first step with a view to moving towards a shorter ISP in the future as per discussions under the GL EB draft.	
Yes. Imbalance settlement period of 60 min is effective and consistent in Baltic-Nordic region.	
Yes.	
BRP agrees - the imbalance settlement period should be 60 minutes and match exactly the period used in the Nordic countries and for Nord Pool Spot exchange. GL EB leaves a possibility for a transition period and that should be as long as the 60-minute period remains on external markets. Shortening the settlement period can be carried out along with Nordic TSOs whenever agreed EU-wide and hence required.	
Yes, we agree.	
Yes, we think that this period is enough.	
Yes.	

<b>Question 1.6 – Do you agree with the building block in chapter 3.5 for single portfolio model?</b>	
<b>Answer</b>	<b>TSOs comment</b>
We agree with single portfolio model. Taking into account that market development supports new solutions such as aggregators for consumers who are also offering regulation, virtual power plants etc., it would be irrational to penalise balancing errors within the same balance portfolio, if total portfolio is in balance.	
This clearly favours BRPs who have production in their portfolio that can be easily regulated up or down, however single portfolio is the easiest and most convenient model.	
We agree with single portfolio model. As this model is in use in Latvia and Estonia, only Lithuania has to change.	
Yes. Both production and consumption are dealt within the same portfolio. The possibility of netting imbalances incentivises BRPs to self-regulate. BRPs would contribute to system balancing. Single portfolio model is appropriate if self-balancing by BRPs does not cause transmission congestions (which is the case in Baltic states). By motivating BRPs to self-balance would help to reduce balancing activities and costs of TSOs and other market players.	
Yes, we agree with the single portfolio model. Hopefully there will be more transparency according this model. Everybody will be interested in system balancing.	
There is a conflict between “parties are incentivised to take and/or maintain a position opposite to overall system imbalance” and “The forecasted and/or systematic purchase or sale of imbalance electricity is not allowed.” Systematic imbalance should be allowed since it can help the system.	In general, systematic imbalance is not allowed and TSO together with BRP should cooperate in order to find out the reasons of systematic imbalance. If systematic imbalance is reducing the overall system imbalance such action should be temporal.
BRP supports the single portfolio model for imbalance settlement. Single portfolio model is essential for the future electricity markets with self-balancing between more localised production and consumption.	
Single portfolio gives inherited competitive advantage to companies that control generation and supply business. Thus efficiency improvements for companies that control only one side of supply chain have to be pretty significant to overweight incumbent company advantage. We view it as an obstacle for fostering competition and rising liquidity, thus we strongly prefer dual portfolio. Single portfolio model is not in line with Nordic market that Baltics aim to integrate with. The transition from single to dual portfolio model is much more difficult, if this will be needed for later integration with Nordics.	There are pros and cons for both models, but the main reasoning for single model is that it benefits the whole system - BRPs are not fixated on balancing their own portfolio, but are incentivised to help balance the whole system.

<b>Question 1.6 – Do you agree with the building block in chapter 3.5 for single portfolio model?</b>	
Two portfolios model seems more attractive, because does not give an advantage to market participants, who manage both sides (supply/generation and demand/consumption) portfolios. In addition, as we understand, connecting with the Scandinavian markets return to two model portfolios will be more complicated.	<p>This problem has also been identified by the Nordic TSOs. The GL EB also states that: “In real time, each balance responsible party shall strive to be balanced or help the power system to be balanced.”</p> <p>Although the Nordics are also examining their settlement concepts, it is however not required for the integration of Baltic-Nordic balancing markets (exchange of mFRR) that the number of portfolios in both CoBAs is identical.</p>

<b>Question 1.7 – Do you agree with the building block in chapter 3.6 for ACE excluded pricing model?</b>	
<b>Answer</b>	<b>TSOs comment</b>
Yes.	
Although the Pros and Cons are well-thought and presented, the question how the ACE excluded model will affect the consumers (cost to the consumer) remains unanswered.	<p>The TSOs initial approach was to propose methodology based on partial ACE cost socialization. However since a lot of respondents disagreed with socialised component, the Baltic TSOs have taken the building block of ACE involvement in imbalance pricing into further consideration. Baltic TSOs are working on adjustment of methodology taking into account stakeholders’ responses and aiming for methodology to be attuned to the full cost balancing principle.</p>
In principle we agree with ACE excluded model, but there has to be a very clear picture, how the ACE cost will be minimised and TSOs would have to use local balancing options in every possibility.	
Indifferent, but we see that the supplementary settlement component in order to recover the cost of ACE (i.e. consumption fee) could be collected by the TSO or DSOs rather than BRPs. More about this in point 1.9.	
ACE costs are a significant part of balancing costs in the Baltic markets since it is incurred in every operational hour. Excluding ACE from imbalance pricing means that imbalance price does not include all costs, additional component is needed to recover additional costs. In addition marginal price will not reflect the actual imbalance price. Excluding ACE is inconsistent with general settlement principles “incentivise TSOs to fulfil their obligations for system balancing and ensure that imbalances are settled at a price that reflects the real-time value of energy”. Excluding ACE from imbalance price decreases TSO’s interest to negotiate better terms with open supplier or restructure the agreement. Also it will decrease transparency of imbalance market as revenues from balancing are structured on different way compared to the costs. We do not agree separating ACE costs from imbalance price. At present Estonian targeted price 0,7€/MWh and Latvian targeted price is ca 2% from NPS. We agree, that increasing targeted price up to 1,5 € (double of today’s) enables to cap extreme prices for imbalance and at the same time remain transparency of the system.	
Yes. ACE price and the ACE volume are not considered in the calculation of the marginal imbalance price. In this option ACE is not included in the ‘stack’ of activations and can therefore not set the price, and the ACE volume that is used in balancing the system is not included in the target volume. If TSOs do not use mFRR market efficiently, there is a danger that ACE is used too much and targeted component will rise.	
Harmonised ACE pricing model needs to be complemented by a properly functioning common Baltic regulating market that demonstrates a reliable track record of transparency, liquidity and decrease of additional costs related to ACE on CoBA level. Common regional regulating market is an instrument that is currently seriously underused in the Baltic region. This is a situation which needs to be changed in the first instance. Baltic TSOs should draw up a common roadmap with specific steps and timelines for the implementation and efficient use of the harmonised regulating market. This would provide certainty for market participants and investors about the planned changes, including the ACE pricing model. Besides, the TSOs would need to address the issue of congestions in the Baltic system and how this impacts the harmonisation of Baltic imbalance settlement. BRP requests the TSOs to specify the principles of calculating reference prices in case of possible congestions. Reduction of ACE costs: the pre-condition to a harmonised price methodology for ACE is a Baltic-wide liquid, well-established and transparent regional regulating market that is centrally managed and efficiently linked with FI and	

**Question 1.7 – Do you agree with the building block in chapter 3.6 for ACE excluded pricing model?**

SE markets. This would enable the harmonised Baltic Balancing Area (CoBA) to function in a co-ordinated way to reduce ACE and balancing costs. Current setup - a setup of phone-based regulating, non-synchronous regulating markets in Nordics and Baltics, with scarce regulating activations and a high ACE cost component -has to be changed. The changes would need to provide sufficient certainty for market participants that the ACE excluded pricing model could be an effective solution, which would remain liquid and avoid excessive ACE costs. For the implementation of the common regional regulating market, BRP suggests that TSOs draw up a detailed roadmap with specific deadlines for actions. TSOs should take a firm and coordinated commitment to establish a common practice of central management of Baltic imbalance and setting up a common regulating market by 01.2018. They should set common ambitious quantitative targets to reduce ACE costs considerably, compared to 2015. Progress on this issue should be regularly reported to market participants. The following elements are important, among others, for setting up an efficient Baltic regulating market: > Central management of balancing reserves. A regional coordination centre should be established in order to minimise whole Baltics imbalance. The task of this centre should be to collect regulation power orders, calculate marginal curve and effectively reduce ACE costs on CoBA level. > Harmonised Baltic regulating market should be integrated with the Finnish and Swedish regulating markets to ensure liquidity and transparent regulation market price. > An electronic platform for mFRR product trading should be established for placing and accepting bids, tracking, activating bids and recording. Transactions agreed over the phone should be prohibited. > Gate closure of H-45 is not justified as there is an increased balancing risk for market participants over this period. BRP proposes to set gate closure to H-15.

Total exclusion of ACE is artificial, because this option does not take into account available balancing resources which are very significant in their volume and which have huge effect to the Baltic market. POYRY suggested that the best option would be “ACE selectively excluded”. We agree with consultants that “ACE selectively excluded” looks as the best alternative: on one had side, imbalance pricing will reflect the outcome that would have been achieved if best priced alternatives had been used, on the other side, ACE would be treated as any other market participant if enough liquidity for regulation appears in the market. So “ACE selectively excluded” option is a good compromise between “ACE included” and “ACE excluded” alternatives. In addition, it should help to prevent unrealistically high prices both on Nord Pool exchange as well as in balancing market (as mentioned in the answer to question 1.4).

No, we would support the consultants proposed an interim solution "ACE selectively excluded, because in this way should lead to potentially lower costs for system balancing. At the same time, it would make marginal pricing model more attractive and less risky.

**Question 1.8 – Do you agree with the building block in chapter 3.7 for single imbalance pricing model?**

Answer	TSOs comment
<p>Proposed hybrid model is based on targeted imbalance component of 6,4 €/MWh. If the spread is 12,8 €/MWh, this model is not single pricing model. Today average spread (including ACE and operational costs) is ca 3€/MWh. Targeted component is ca 1,5 €/MWh. Proposed targeted component 6,4 €/MWh is almost 4 times higher. Proposed targeted component is close to Finland, but there's separated production and consumption portfolio and production portfolio is dual pricing. We do agree with single pricing model, but spread cannot be 12,8 €/MWh.</p>	<p>Due to changes in the pricing of ACE methodology, the preliminary proposition for the imbalance pricing methodology shall be re-analysed.</p>
<p>Yes. The components for the imbalance price would consist of:</p> <ol style="list-style-type: none"> <li>1. Marginal activated mFRR balancing bid price;</li> <li>2. Reference price;</li> <li>3. Targeted component.</li> </ol> <p>If there is no congestion on mFRR market, the Targeted Component (variable cost - single imbalance price) shall be the same in all Baltic areas.</p>	
<p>Reference price of average of day-ahead prices could be problematic when there is congestions between countries. It is also unclear, what will be price when there are congestions between countries and regulation in one country but not in all countries or regulation to opposite direction.</p>	
<p>We would suggest to consider using a system where one price would always be limited with day ahead spot price, so that it would not be possible to “win” from being not in balance. Possibility to win from not being in balance could create speculation, especially in a market where some market players</p>	<p>This would discourage market participants to balance the overall system and is not in line with GL</p>

<b>Question 1.8 – Do you agree with the building block in chapter 3.7 for single imbalance pricing model?</b>	
have relatively large influence. That would probably also make it possible to lower the targeted component.	EB.
Single pricing supports BRP's to keep their balance surplus or short depending on the expectations where the system will go. Hence single pricing may lead to uneconomic self-balancing actions. In addition, it means that TSOs would have less control over the whole system which does not seem as a good idea taking into account Russian owned companies which are active on the Baltic market. Also in a single pricing - dual portfolio does not make sense. In dual pricing you have strong incentives to plan actual consumption and production; meanwhile single pricing makes sense only for demand, given the lack of real-time data regarding hourly demand consumption. We believe that Nordic model captures major part of advantages of both pricing models: strong incentives for generators (who can control their production) to stay in balance, and supports consumption participation in balance management, thus we strongly prefer it.	Single pricing is the preferred choice of pricing methodology stated in the GL EB, and is considered alongside the single portfolio model.
BRP supports the single reference price for imbalance pricing. Single reference price model is well-suited for reducing whole market imbalances. This is also less penalising for producers and small retailers, in case they would have relatively larger deviations. The single pricing principle is straightforward and goes well with the real costs of ACE - the balancing price (for all imbalances on that hour) should reflect the ACE balancing price for particular hour. This also favours introducing new and more responsive self-balancing methods (e.g. demand side response). Single price is also recommended by GL EB.	
Yes	
Agree.	

<b>Question 1.9 – Do you agree with the building block in chapter 3.8 for hybrid fee model?</b>	
<b>Answer</b>	<b>TSOs comment</b>
We agree with hybrid fee model, but would suggest decreasing share of targeted component (50%/50%). Estimated targeted component level of 6,4-9 EUR/MWh would mean that spread between balancing price purchase and sale is up to 18 EUR each hour, which would create more uncertainty when estimating balancing cost.	Due to most of stakeholders being against to implementation of socialised component within imbalances cost recovery, TSOs will re-analyse the settlement mechanism without the socialised consumption component.
<p>Making BRPs collect (fixed) consumption component from their clients creates several problems:</p> <ol style="list-style-type: none"> <li>1. All contracts have to be changed and renegotiated, to include the consumption fee.</li> <li>2. It becomes a grey area who will charge the consumption component in case a customer buys open delivery from one BRP, but fixed deliveries from another BRP. Some customers may end up paying twice for consumption fee.</li> <li>3. The fact that this consumption component itself can change in time, makes signing long-term contracts problematic, as it is impossible to forecast what the value of the consumption component is x months into the future. It must then be a separate item on the invoice for example, which changes as and when the TSO changes the fixed component and is separate from the BRP margin.</li> <li>4. The retailers will start "playing" with this component, by either including it in the final price for the customer or including it as a separate fee. This distorts the market and creates confusion; it becomes harder for clients to compare offers from different BRPs. The way in which this fee is indicated should be regulated and explicit.</li> <li>5. Additionally, it is not clear why BRPs who are (mainly) producers are exempted from the consumption fee. If the consumption fee is recovering balancing costs, then producing BRPs who contribute to imbalance costs should pay this as well.</li> <li>6. All in all, it becomes very hard to forecast for the BRP, what it's balancing cost is going to be in the future. If the BRP is relatively more accurate in forecasting and pays very little of targeted fee, then it may still face "high" consumption fee and lose its competitive edge on the retail market. In the end it is important to note that accurate forecasting is BRP's business and their skill. If we remove this from the market by force with fixed components, we reduce customers' choice of BRP and make the market less efficient while reducing the incentive to forecast accurately.</li> </ol>	
If this is a fee that would need to be paid by every MWh of consumption, why not let it be collected by TSOs or DSOs? Especially in light of the fact that one client might buy open delivery from one and fixed delivery from another BRP and therefore the total consumption (which the fixed component is	

**Question 1.9 – Do you agree with the building block in chapter 3.8 for hybrid fee model?**

based on) is collected by TSO/DSO but not by any BRP. Also, since the fixed component by nature doesn't "punish" BRP's who cause the imbalances but essentially taxes consumption, then it makes more sense to collect it via network fees, which are universal anyway.

Imbalance service cost recovery model should be transparent and treat all market participants equally. In Estonia additional cost from balancing energy is 0,3 for producers and 0,12 for consumers. This indicates, that imbalance is driven by production and current system is in line with the principle "polluter pays". More stable clients, like consumers, will get smaller share of balancing costs. In Latvia production portfolio has almost zero additional cost for balancing. At the same time consumers' balancing cost is 0,48 €/MWh and it is 4 times higher than in Estonia. It seems that Producers have better understanding of balancing energy prices and therefore they can shift forecast into right direction. Earlier balancing energy price publishing will help all market participants to get the right inputs for forecasting. Hybrid model will cap extreme prices from imbalance market. Therefore producers will benefit from new model and customers will suffer from additional costs that are related to extreme balancing costs caused by producers. Therefore hybrid model is inconsistent with general settlement principle to incentivise balance responsible parties to strive to be balanced or help the system to restore its balance. LITHUANIA: Today average spread (including ACE and operational costs) is ca 22€/MWh. Targeted component is ca 11 €/MWh. Due to fact that balancing energy prices include grid component, it's unclear what will be effect of proposed new model. Even 6,4 € targeted fee looks good compared to current situation but based on Estonian and Latvian analyses 6,4 € is too big.

BRP strongly disagrees with any socialised fees and -components both in consumption and production. BRP proposes to adopt a solution whereby a common Baltic reference price for imbalance would be established, and then each of the Baltic states would allow for national targeted fees on imbalance volumes to cover their full costs of balancing. BRP does not agree with the proposed hybrid fee model due to the inclusion of noticeable level of socialised fee. This setup would lead to less efficient markets with higher social costs, since common sharing of balancing costs loses incentives for retailers to adopt new methods to reduce their imbalances. Socialised consumption component is counteractive to TSOs' goals in minimising balancing amounts and ACE costs in general. In case when more precise BRPs are penalised with common socialised fees (mainly caused by other less precise BRPs), the incentives and investments into further reducing imbalances and into new methods of self-balancing (real-time data, demand side response) are severely affected. This would discourage market innovation and also smaller market participants with possibilities of ensuring better data quality, and in general lead to more stagnant markets. Competitiveness of EU technology providers is one important principle for the GL EB. Baltic balancing market should be as motivating for market participants to reduce imbalances as possible. Furthermore, socialised fee acts as an additional tax on consumption and thus should be avoided as much as possible. It would be highly demotivating to a future retailer who may have near-zero imbalances, but has to carry substantial costs through socialised fees. In that sense the socialised fee would be a limiting factor on competition in the market and acts as a government subsidy to market players with higher imbalances (which goes against EU's principles). The Baltic electricity market should be an effective competitive market aimed at encouraging innovation. Therefore BRP suggests only targeted fees. BRP also suggests to apply the targeted cost on balancing settlement based on real costs that have occurred to TSOs during previous month. By this principle there would not be any inefficiency that occurs with estimating ACE costs and maintaining neutrality principle.

Yes. Cost recovery solution based on targeted and actual consumption components. If there is no congestion on mFRR market, the Consumption Component (relatively fixed cost - ACE cost recovery) shall be the same in all Baltic areas.

Please confirm, do we understand correctly hybrid model: that targeted fee will be the same for everybody and socialised model will depend on consumption and they both will be using together for imbalance service cost recovery model? Where is the benefit of this model for all sides? As according the study the combination of socialised fee with targeted model does not unfairly penalise market participants due to unreasonably high imbalance prices when the system is short and very low prices when the system is long.

Yes.

Yes, we agree.

Yes

<b>Question 1.10 – Do you agree with the proposed methodology for hybrid fees in chapter 3.9?</b>	
<b>Answer</b>	<b>TSOs comment</b>
We would suggest decreasing share of targeted component. If targeted component is to be same for all Baltic systems, there would have to be a very clear control mechanism if all TSOs are making their best efforts to minimise ACE costs.	The TSOs have agreed that the targeted component principle shall remain intact, but the consumption component will be re-analysed.
Generally agree.	
Proposed fee structure is not acceptable. In Estonia yearly production is ca 1 TWh bigger than consumption. Based on our analyses it's quite clear that producers cause more balancing than consumption. Applying additional component only to customers mean that local customers will have to compensate balancing caused by producers and also balancing costs from export. This system is inconsistent with general settlement principles.	
Conditionally Yes. Acceptable that as starting point Baltic TSOs aims to apply 70% /30 % shares for targeted component and actual consumption components to recover the Baltic balancing costs, but based on statistics, TSOs shall forecast the possible shares and tariffs for adjusting net income. Providing that actual consumption component (€/MWh, that is applied to BRPs consumption portfolio) should be the same in all Baltic areas.	
Yes.	
BRP does not agree with the proposed methodology for hybrid fees and suggests to use targeted fees only to the maximum extent possible for simplicity, transparency and fairness to market participants, creating motivating setup to reduce imbalances to minimum. 100% targeted fees are not much significantly higher than the 70% targeted fees, but will lead to more transparent methodology. There should be no question about setting/choosing the shares 70%/30%, in fact the methodology of changing them is unclear and not covered yet. The methodology should be maintained as stable as possible and 100% targeted fees would give market participants full confidence required for long-term contracts. Any possibilities in socialising of costs should be avoided, since this affects long-term contracts directly. Targeted fee component should always aim as an incentive to keep the balance and the methodology should not be changed intermittently. The risk of excessively high spread is not substantially higher when having 100% targeted fees (compared to 70%), and the problem of high additional costs should be covered otherwise, as mentioned in point 1.7. BRP does not support TSO's budgeting of ACE cost and propose to calculate national targeted fees monthly based on actual ACE cost for the settlement period that should guarantee balanced cash flows to TSOs and transparency to market participants.	
Yes.	

<b>Question 1.11 – Do you agree with the other harmonisation items in chapter 3.10?</b>	
<b>Answer</b>	<b>TSOs comment</b>
It would be useful to move towards harmonising all of the settlement items presented in table 11. When changes in the regulation are needed, the relevant Ministry can be of help.	This is the ultimate goal however considering the timeline, harmonising all the other items concurrently and adopting them by 2018 is simply not feasible.
General harmonization settlement principles indicate, that harmonization should increase competition among market players. Competition can be increased by attracting new companies to enter the market. Although one might think, that Estonia, Latvia or Lithuania is significant and attractive market, then in reality the Baltics' total consumption is ca 25 TWh. Compared to Finnish market it's relatively small. Not to mention Sweden or Norway. Therefore any exception in balance management will not help to attract new players to enter the market. It's essential that data management, collateral, imbalance price publications etc. are harmonized in the same timeframe with imbalance prices. Every new market requires some investment, for the IT, time, collateral etc. Having different data management system and rules in each country will keep all new players out of the market. It takes 160 000 € as a minimum collateral to enter the Baltic market. But it takes 200 000 € collateral to enter Finnish balancing market. Lithuanian collateral system is highly overrated and should be harmonized immediately. Another example from data management. In Estonia and in Latvia it's possible for the suppliers, having authorization from the client, to request historical consumption data directly from datahub. In Lithuania it's not possible and DSO asks money to give this information to the customer. We agree that all other items should be harmonized as well and should be completed by current ongoing harmonization process.	
Harmonisation of data exchange as well as keeping data exchange and quality requirements in line	

**Question 1.11 – Do you agree with the other harmonisation items in chapter 3.10?**

<p>with the latest developments in the Nordic and Central European countries is important (for example eSett - although for current Baltic setting, the monthly settlement reports could arguably be a simpler solution). Data exchange should be automated and rely on Excel as little as possible. Publishing system data and prices should be done as soon as possible, preferably also with automated real-time publishing of data and prices (in intermediate mode). In addition, quality of data published on Entso-E transparency platform (besides national websites) should be maintained. In the future, the Baltic balancing setup should be a top example of an effective and transparent market that could be implemented EU-wide. In addition, BRP suggests harmonising guarantee requirements for market participants across the Baltic market.</p>	
<p>We do not agree with no correction period between TSO and BRP. Today there are lots of changes in measured data after the balance report and if all this is settled with NPS price (as it is today according to Estonian legislation), then BRP could suffer a significant loss. For example if measured data of the consumer is missing, then BRP has purchased this amount with NPS price and has to sell it to TSO with a low balance energy purchase price (including targeted component). If next month data is entered and TSO does not make a correction, then BRP has to purchase the same amount from grid operator with NPS price. This means that every time grid operator delays entering data to data warehouse, BRP suffers a loss. Data exchange format in Estonia is only XML, is it not possible to use excel?</p>	<p>When smart metering is rolled out, the need for a correction period is not required. There is no settlement correction period in the Nordics as well between TSO-BRP.</p> <p>The requirement of using Xml as the data exchange format is that it can be sent between parties in different Baltic countries, and later between Baltic and Nordic market parties.</p>
<p>Generally agree. The fact that in the future, the balancing positions and prices will be published already in H+1 seems to favour BRPs, who can easily regulate their production to match their position. For retailers with no production assets, it is a lot harder to adjust within a day.</p>	<p>Keeping in mind the overall system balance, the information about prices should be published as soon as possible.</p>
<p>Generally Yes. Gate closer time for balance plans should be H-15min, that enables BRPs for better self-balance and thus would they would contribute to system balancing.</p>	<p>The GCT will be harmonised as H-45, which is in compliance with the Nordic setup. However, future developments regarding the implementation of a shorter GCT due to changes e.g. in the Nord Pool Elbas timeframe will be taken into account.</p>
<p>Yes.</p>	
<p>Yes, we agree.</p>	
<p>Yes.</p>	